

# **Procedures for Lending Funds or Endorsement & Guarantee of Pegatron Corporation**

**Date of Revision: June 21, 2019**

## **Article 1**

The procedures are set forth in accordance with provisions of Article 36-1 of the Securities and Exchange Act (“the Act”), “Regulations Governing Loaning Funds and Making of Endorsements/Guarantees by Public Companies” and other applicable laws, rules and regulations.

## **Article 2**

Pegatron Corporation (“The Company”) shall follow the Procedures set forth for lending funds and providing endorsement & guarantee to other parties. Subsidiaries and parent company are defined in International Financial Standards No. 27.

## **Article 3**

The party to whom the Company may lend its funds shall be limited to:

1. Companies having business relationship with the Company;
2. Companies, whom are directly or indirectly owned by the Company with more than 50% of shareholding, in need of funds for a short-term period; or
3. Other affiliated companies in need of funds for a short-term period to support its business operation.

## **Article 4**

The aggregated and individual amount available for lending is as follows:

1. The aggregate amount available for lending shall not exceed 30% of the net worth of the Company.
2. The total amount for lending to an individual company having business relationship with the Company shall not exceed the total transaction amount between the parties during the period of twelve (12) months prior to the time of lending (For the purpose of this Procedures, the “transaction amount” shall mean the sales or purchasing amount between the parties, whichever is higher). The total amount available for lending shall not exceed the limit set forth in the preceding subparagraph.
3. The total amount for lending to an individual company for short-term funding shall not exceed 15% of the net worth of the Company.

## **Article 5**

Loan term and calculation of interest are as follows:

1. Term: The term of each loan extended by the Company shall not exceed one year and may not be extended.

2. Calculation of Interest rate:

The interest rate shall be determined on the basis of the Company's funding cost and adjusted accordingly, but in no event shall it be lower than the average of the Company's short-term bank borrowing rate at the time of lending. The interest shall be calculated on a monthly basis. Under special circumstances and upon approval from the chairman, interest rates can be adjusted depending on the actual practice.

## **Article 6**

Review and procedures for lending funds are as follows:

All applications for lending funds shall comply with The Procedures and be sent for approval from the Board of Directors. When the Procedures is submitted for discussion by the Board of Directors, opinions of each independent director shall be taken into full consideration. If any independent director objects to or expresses reservations about any matter, the objection or reservation shall be recorded in the minutes of the Board of Directors meeting.

1. Any borrower, of whom the Company directly or indirectly holds more than 50% of voting shares, when applying for a loan from the Company, shall submit an application describing in detail the applicant's basic information, purpose and requested loan amount and term to the Finance Department. Based on the aforementioned information, the Finance Department and relevant departments shall then evaluate the following items and propose the applicable interest rate and term of the loan. The proposal shall be submitted for the chairman's approval and then final approval from the Board of Directors, which the Board of Directors may authorize its chairman to lend funds to a specific borrowing counterparty, within a certain pre-approved monetary amount and within a period not exceeding one year, in one or several drawdowns or a revolving credit lines. However, the above authorized lending amount to be approved by the Board of Directors shall not exceed 10% of the net worth of the Company's most recent audited financial statements.
  - (1) The necessity and rationality of the loan
  - (2) The credibility and risk of the borrower
  - (3) The impact towards the Company's operating risk, financial position and shareholders' equity

- (4) The necessity to acquire collateral and appraisal of collateral
2. Except for subsidiaries which the Company, directly or indirectly, holds more than 50% of the voting shares, any other borrower shall provide one the of the following items:
  - (1) Promissory note for the equivalent amount
  - (2) Guaranteed by the financially sound guarantor for the full amount; however, if the guarantor is a company or an organization, the qualification of the guarantor must be examined according to the Article of Incorporation and the minutes of the Board of Directors meeting
  - (3) If any collateral is provided, legal procedures for mortgage and/or lien must be fulfilled to protect the interest of the Company
3. The Company shall maintain a reference book and keep record of all fund lending activities which include the following information relating to the loan: the borrower, amount, date of approval by the Board of Directors, date of the lending/borrowing, and matters to be evaluated pursuant to the first and second subparagraphs of this paragraph.
4. Internal auditors shall perform auditing on the Company's lending profile every quarter and produce written auditing reports. Shall there be any violation found, a written report is needed to notify the Audit Committee.
5. Should a borrower no longer satisfy the criteria set forth in The Procedures or the lending amount exceed the lending limit due to unexpected changes of the Company, a corrective plan has to be provided to the Audit Committee and the proposed corrective actions shall be implemented within the period specified in such plan.

#### **Article 7**

Controlling measures of lending profile are as follows:

After the drawdown, the financial condition, business operation, credit status and value of collateral, if any, of the borrowers and guarantors shall be monitored closely. Shall there be any material changes, chairman shall be informed immediately and corrective actions shall be carried out in accordance with the instruction of the chairman.

Borrowers, prior to the due date of the loan, shall calculate and pay the interest along with the loan amount in order to have the promissory note cancelled or returned to the borrower or the mortgage written off. All loans and its interest shall be paid off upon the due date. In the event that a loan is over-due and not repaid, the Company shall take legal measures against its collateral or guarantor.

#### **Article 8**

The scope of endorsement / guarantee and the words "endorsement / guarantee" used

herein are defined as follows:

1. Financing endorsement and/or guarantee, including:
  - (1) Endorsement / guarantee to notes receivable discounted;
  - (2) Endorsement / guarantee for another company for its financing needs;
  - (3) Endorsement / guarantee to the notes issued by the Company to non-financing institutions and entities to fulfill the Company's own financing needs.
2. Endorsement / guarantee of customs duties from the Company.
3. Other endorsement / guarantee which are not included under subparagraph 1 and 2.
4. The lien or mortgage provided by the Company against its assets and properties for guaranteeing another company's loan should follow the policies and procedures set forth herein.

### **Article 9**

The parties to whom the Company may provide endorsement / guarantee include the following:

1. Companies having business relationship with the Company.
2. Companies whom are directly or indirectly owned by the Company for more than 50% of shareholding.
3. Parent company who directly or indirectly owns 50% or more of the Company's voting shares.

Where the Company fulfills its contractual obligations by providing mutual endorsement / guarantee for another company in the same industry or as one of the mutual constructors for the purpose of undertaking a construction project, or where tall shareholders provide endorsement / guarantee for their jointly invested company in respect to their shareholding percentages, such endorsement / guarantee may be made free of the restriction of the preceding paragraph.

The voting share defined the preceding paragraphs includes the direct holding by the Company and the holdings by the subsidiaries where the Company owns, directly or indirectly, more than 50% of the voting share.

### **Article 10**

The amount of endorsement / guarantee provided by the Company and its levels of authorization are as follows:

1. The aggregate amount of endorsement / guarantee provided by the Company shall not exceed 50% of the net worth of the Company's most recent financial statements.
2. The total amount of the endorsement / guarantee provided by the Company to any individual company shall not exceed 20% of the net worth of the Company's most recent financial statements.

3. The aggregate amount of endorsement / guarantee and the total amount to each individual company provided by the Company and/or its subsidiaries shall not exceed 50% and 20% of the net worth of the Company's most recent financial statements.
4. The total amount of endorsement / guarantee provided by the Company to any individual company deriving from business relations shall not exceed the total business amount between such party and the Company for the prior twelve-month period (the business amount refers to purchase amount or sales amount of the goods between the parties, whichever is higher).
5. The amount of endorsement / guarantee authorized to the chairman by the Company shall not exceed 10% of the net worth of the Company's most recent financial statements.

In case the above limits have to be exceeded to accommodate business needs, the approval from the Audit Committee and a resolution of the Board of Directors shall be obtained and over half of all the directors shall jointly endorse the potential loss that may be brought about by the excess of limits. The Board of Directors should also revise the Procedures and has it ratified at the Shareholders' Meeting. If the revised Procedures are not ratified at the Shareholders' Meetings, then the Board of Directors should furnish a plan containing a timetable to withdraw the excess portion. When the Procedures is submitted for discussion by the Board of Directors, opinions of each independent directors shall be taken into full consideration. If any independent director objects to or expresses reservations about any matter, the objection or reservation shall be recorded in the minutes of the Board of Directors meeting.

#### **Article 11**

All applications for endorsement / guarantee shall comply with the Procedures and shall either be sent for approval from the Board of Directors in accordance with the following steps or have the chairman exercise the endorsement / guarantee in accordance with subparagraph 5, paragraph 1 of Article 10. When the Procedures is submitted for discussion by the Board of Directors, opinions of each independent directors shall be taken into full consideration. If any independent director objects to or expresses reservations about any matter, the objection or reservation shall be recorded in the minutes of the Board of Directors meeting.

1. Any applicant, seeking endorsement / guarantee by the Company, shall submit an application describing in detail the applicant's basic information, purpose and endorsement / guarantee amount and term to the Finance Department. Based on the aforementioned information, the Finance Department and relevant departments shall

then evaluate the following items:

- (1) The necessity and rationality of the endorsement / guarantee
  - (2) The credibility and risk of the involved parties
  - (3) The impact towards the Company's operating risk, financial position and shareholders' equity
  - (4) The necessity to acquire collateral and appraisal of collateral
2. In case the Company desires to provide endorsement / guarantee for the benefit of a subsidiary whose net worth is lower than half of its paid-in capital, risk control measures shall be established and implemented.
  3. The Company shall maintain a reference book and keep record of the all endorsement / guarantee activities which include the following information: the parties involved, amount, date of approval by the Board of Directors, date of the endorsement / guarantee, and matters to be evaluated pursuant to the first and second subparagraphs of this paragraph.
  4. Internal auditors shall perform auditing on the Company's endorsement / guarantee profile every quarter and produce written auditing reports. Shall there be any violation found, a written report is needed to notify the Audit Committee.
  5. Should the involved party no longer satisfy the criteria set forth in The Procedures or the amount exceed the limit due to unexpected changes of the Company, a corrective plan has to be provided to the Audit Committee and the proposed corrective actions shall be implemented within the period specified in such plan.
  6. Where the Company plans to provide endorsement / guarantee to non affiliated companies, prior approval from the Board of Directors shall be obtain and it shall be executed in accordance with the Procedures.

## **Article 12**

When providing endorsement / guarantee, the seals used for endorsement / guarantee shall be the official corporate seals registered with the Ministry of Economic Affairs, while the signature shall be from the authorized persons by the Board of Directors respectively.

The aforementioned seals shall be kept by persons appointed and authorized by the Board of Directors. Internal procedures must be followed for obtaining seals of the Company.

## **Article 13**

The term "public announcement" as used in the Procedures refers to the process of disclosing information on the designated website by the Financial Supervisory Commission, Executive Yuan. "Date of occurrence" in the Procedures means the date of contract signing, date of payment, date of boards of directors resolutions, or other date

that can confirm the counterparty and monetary amount of the lending funds or providing endorsement & guarantee, whichever date is earlier.

#### **Article 14**

Before the 10<sup>th</sup> of each month, public announcement shall be made by the Company for the outstanding funds as of the end of the previous month.

Shall the funds reach any of the following criteria, public announcement shall be made within two days from the date of occurrence:

1. The aggregate outstanding funds to other parties by the Company and its subsidiaries reach 20% of the net worth of the Company's most recent financial statements.
2. The total outstanding funds to an individual company by the Company and its subsidiaries reach 10% of the net worth of the Company's most recent financial statements.
3. The amount of new funds provided by the Company or its subsidiaries exceeds NT\$10 million and reaches 2% of the net worth of the Company's most recent financial statements.

If there is any public announcement required for the Company's subsidiary which is not a domestic public company, the Company will follow the requirement on behalf of the subsidiary.

#### **Article 15**

Before the 10<sup>th</sup> of each month, public announcement shall be made by the Company for the outstanding amount of endorsement / guarantee as of the end of the previous month.

Shall the amount of endorsement / guarantee reach any of the following criteria, public announcement shall be made within two days from the date of occurrence:

1. The aggregate outstanding amount of endorsement / guarantee provided by the Company and its subsidiaries reaches 50% of the net worth of the Company's most recent financial statements.
2. The total outstanding amount of endorsement / guarantee to an individual company by the Company and its subsidiaries reaches 20% of the net worth of the Company's most recent financial statements.
3. The outstanding amount of endorsement / guarantee by the Company and its subsidiaries for an individual company exceeds NT\$10 million and the aggregate outstanding amount of all endorsements / guarantees for, the book value of investment under equity method, and balance of loans to, such company reaches 30% of the net worth of the Company's most recent financial statements.
4. The amount of new endorsement / guarantee made by the Company or its

subsidiaries exceeds NT\$30 million and reaches 5% of the net worth of the Company's most recent financial statements.

If there is any public announcement required for the Company's subsidiary which is not a domestic public company, the Company will follow the requirement on behalf of the subsidiary.

#### **Article 16**

The Company shall evaluate the status of its funds and reserve sufficient allowance for bad debts in compliance with generally accepted accounting principles. Relevant information shall be furnished to CPA for auditing and shall be disclosed in the financial reports where appropriate.

#### **Article 17**

If subsidiaries, whom are directly or indirectly owned by the Company for more than 50% of shareholding and not registered in the Republic of China, intend to lend funds or provide endorsement / guarantee to other parties, the subsidiaries shall establish the procedures as stated below and submit for approval from their Board of Directors before submitting for further approval from the Company's Board of Directors.

1. The aggregated funds granted by the subsidiary to other parties and the total funds granted by the subsidiary to an individual entity shall not exceed 30% and 15% of the subsidiary's net worth respectively.
2. The duration of the loan and interest calculation shall be proceeded in accordance with the Procedures. Overseas subsidiaries that are wholly owned by the Company are free of the restriction stipulated in the subparagraph 1 of this paragraph and paragraph 1 of Article. However, the duration of each loan shall not exceed 5 years from the first date of lending, and shall not be extended either. In the event where interest rate needs to be adjusted, prior approval from the Company's chairman shall be obtained.
3. Endorsement / guarantee between subsidiaries that are wholly owned by the Company shall obtain prior approval from the said subsidiary's Board of Directors. The aggregated funds and the limit to individual subsidiary shall be 50% and 20% of the Company's net worth respectively.
4. Subsidiaries whose voting shares are at least 90% owned, directly or indirectly, by the Company may provide endorsement / guarantee to each other, and the total amount of such endorsement / guarantee shall not exceed 10% of the Company's net worth.
5. Endorsement / guarantee provided by the subsidiary to other parties shall obtain prior approval from the Company's Board of Directors, except the endorsement /



guarantee provided to other subsidiaries that are wholly owned by the Company. The total amount for lending to an individual company having business relationship with the subsidiary shall not exceed the total transaction amount between the parties during the period of twelve (12) months prior to the time of lending. The total amount available for lending shall not exceed the limit set forth in the preceding subparagraphs.

6. In any event where the subsidiary intends to revise the limits or interest rate, the approval from the Company's Board of Directors shall be obtained.

#### **Article 18**

If the subsidiary of the Company is a public company in the Republic of China and intends to lend funds or provide endorsements / guarantee, the relevant internal procedures shall be established and followed in accordance with "Regulations Governing Loaning Funds and Making of Endorsements/Guarantees by Public Companies".

#### **Article 19**

The Company's managers and persons-in-charge shall follow the Procedures in order to prevent the Company from incurring any losses. Should there be any violation of the Procedures, subsequent castigation is subject to the related Personnel Articles of the Company.

#### **Article 20**

The Procedures shall be approved by more than half of the Audit Committee members before submitting for further approval from the Board of Directors and the Shareholders' Meeting. If approval of more than half of the Audit Committee members is not obtained, the Procedures may only be further processed if approved by more than two-thirds of all directors, provided that the resolution of the Audit Committee is recorded in the minutes of the Board of Directors meeting. Where any director expresses dissent and is recorded in the minutes or a written statement, the Company shall submit the dissenting opinion to the Shareholders' Meeting. Any amendment is subject to the same procedures.

When the Procedures is submitted for discussion by the Board of Directors, opinions of each independent directors shall be taken into full consideration. If any independent director objects to or expresses reservations about any matter, the objection or reservation shall be recorded in the minutes of the Board of Directors meeting.